



STATE OF MAINE
OFFICE OF THE STATE TREASURER

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JOSEPH C. PERRY
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GREGORY OLSON
Deputy State Treasurer

To: Members, Joint Standing Committee on Appropriations and Financial Affairs
Members, Joint Standing Committee on Health and Human Services
Fr: State Treasurer Joseph C. Perry
On: December 15, 2025
Re: FY 2025 Tobacco Settlement Payments Report

Mandated Report: The State Treasurer is required to report at least annually on the status of Maine's Tobacco Settlement Payments to the Joint Standing Committees on Appropriations and Financial Affairs and Health and Human Services. The report must summarize the activity in any funds or accounts directly related to the Fund for a Healthy Maine. See 22 M.R.S.A s. 1511(8).

EXECUTIVE REVIEW

In 1998, Maine, along with 45 other states and 6 U.S. Territories became creditors of Participating Cigarette Manufacturers (PMs) pursuant to a Master Settlement Agreement (MSA) made between the states and many cigarette manufacturers settling lawsuits brought by these states and territories. Florida, Minnesota, Texas and Mississippi had already reached individual agreements with the tobacco industry. The MSA exempted participating cigarette manufacturers from liability to the state governments arising from the claims alleged in the states' lawsuits, and provided those state governments with compensation for smoking related medical costs and the states' other monetary claims, and with funding to help reduce smoking in the United States through a national foundation. The MSA also limited the marketing and advertising practices of the cigarette manufacturers to further protect public health.

Maine's continuing receipt of Tobacco Settlement Payments hinges on three (3) key factors:

1. Enforceability: The continuing enforceability of the manufacturers' Master Settlement Agreement payment obligations.
2. Financial Capacity: The continuing financial capacity of the Original Participating Manufacturers (OPMs) and Supplemental Participating Manufacturers (SPMs) to make timely Master Settlement Agreement payments.
3. Legal Actions: Legal actions which delay or alter Master Settlement Agreement Payment obligations.

PAYMENTS FORMULA AND REVENUE PROJECTION PROCESS

ELIGIBILITY: Maine has the right to always receive 0.7693050% of the Annual Payments that are expected to be paid in perpetuity pursuant to the MSA. In addition, Maine also received 1.3281978% of the Strategic Contribution Payments during the years 2008 through 2017. Maine was eligible for these supplemental payments as a result of its early involvement in the work which resulted in the MSA. Payments are due in April each year.

PAYMENTS FORMULA: Annual settlement payments are driven by two key annual adjustments, the 1) inflation adjustment and the 2) volume of cigarettes sold nationwide. Under the Inflation Adjustment, the base annual payments will increase annually by the greatest of 3% or CPI (Consumer Price Index). Under the Volume Adjustment, the MSA tobacco payments due from the manufacturers are either reduced or increased depending on whether the OPMs' national sales volumes for a given sales year are less than or greater than, respectively, the national cigarette sales volumes for 1997. Maine's Tobacco Settlement Payments are directly related to the shipments of cigarettes nationwide, without regard to increases or decreases in Maine cigarette sales.

REVENUE PROJECTION PROCESS: A meeting of the Maine Treasurer’s Office, the Maine Attorney General’s Office, the State Budget Office and the Legislature’s Office of Fiscal and Program Review is held in advance of the Spring Revenue Forecasting Committee meeting in order to reach consensus on the revenue forecast. That meeting agenda includes a review of an econometric model available from the National Association of Attorneys General that projects domestic consumption of cigarettes. Each meeting also discusses the likely impacts on Maine’s payments stream of any disputes pending under the MSA. These disputes, and the timing and direction of their outcomes, present significant volatility to the revenue stream projection process.

Under the MSA, a PM may be entitled to a reduction in its annual payment obligation for the Non-Participating Manufacturer (“NPM”) Adjustment. Beginning in sales year 2003 (and expected for every sales year thereafter), the PMs have claimed that they are entitled to an NPM Adjustment, which initially allows the PMs to withhold a portion of their annual payment, and would ultimately result in a decrease in the amount the PMs owe under the MSA for any year in which the PMs’ argument succeeds. The 2003 NPM Adjustment dispute as it pertains to Maine went to a final arbitration hearing in September 2012, and on September 11, 2013 the Panel issued its ruling finding in Maine’s favor. Specifically, the Panel found that Maine diligently enforced its qualifying statute during sales year 2003 and that Maine’s payment is thus not subject to the NPM Adjustment for that year.

In 2018, Maine joined a multi-state settlement that saved the state the time and expense of burdensome, protracted arbitration of the NPM Adjustment dispute pertaining to all years from 2004 through 2017. Practically, this agreement requires the PMs to pay Maine the full NPM Adjustment amount in return for a future credit. Maine extended this NPM Adjustment Settlement Agreement through sales year 2022 in 2020, and extended again through sales year 2024 in 2024. Maine is negotiating another extension of this agreement through 2027. Extending this agreement continues to protect Maine from the PMs withholding of large portions of the annual payment pending yearslong, resource-heavy arbitration. Maine’s annual payment projection for 2026-2028 will increase if this settlement is finalized.

The precise amounts of the payments are determined by an independent auditor using complex formulas provided in the MSA and recent settlement documents.

TOBACCO SETTLEMENT PAYMENTS AND INVESTMENT EARNINGS

The State of Maine has received \$1,381,455,463 to date in Tobacco Settlement payments. Each payment is deposited into the Fund for a Healthy Maine (FHM) where it is held in the Treasurer’s Cash Pool. All investment earnings on these funds are deposited back into the FHM.

ESTIMATED FUTURE TOBACCO SETTLEMENT AND OTHER FHM PAYMENTS

(FY26-28 BASED ON DEC 2025 REVENUE FORECASTING COMMITTEE REPORT*)

Source	FY25 Actual	FY26	FY27	FY28
Base Payments	43,217,462	26,151,122	23,087,341	23,087,341
Strategic Contribution Payments	-	-	-	-
Casino Revenue	4,703,298	5,456,065	5,625,193	5,775,259
Income from Investments	1,807,869	588,751	319,646	211,046
Other Adjustments	-	-	-	-
TOTAL FHM Revenue	49,728,629	32,195,938	29,032,180	29,073,646